

# HAWAI'I STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

# ADMINISTRATIVE APPLICATION - CERTIFICATE OF NEED PROGRAM

Certificate of Need Administrative Application July 2009 1642107.V2

Name (please type or print)

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Title (please type or print)

D. If you have filed a Certificate of Need Application this current calendar year, you may skip the four items listed below. All others, please provide the following:

Articles of Incorporation: See Attachment 2

By-Laws: See Attachment 3

Partnership Agreements: Not applicable

Tax Key Number (project's location): 180180250000 (portion of)

See Attachment 1

4.	TYPE OF PROJECT.	This section helps our reviewers understand what type of
	project you are proposing	. Please place an "x" in the appropriate box.

	Used Medical Equipment (over \$400,000)	New/Upgraded Medical Equip. (over \$1 million)	Other Capital Project (over \$4 million)	Change in Ownership	Change in Beds
Inpatient Facility					
Outpatient Facility				х	
Private Practice					

5. BED CHANGES. Please complete this chart only if your project deals with a change in your bed count and/or licensed types. Again, this chart is intended to help our reviewers understand at a glance what your project would like to accomplish. Under the heading "Type of Bed," please use only the categories listed in the certificate of need rules.

Type of Bed	Current Bed Total	Proposed Beds for your Project	Total Combined Beds if your Project is Approved
		_	
TOTAL			

# 6. PROJECT COSTS AND SOURCES OF FUNDS

A.	List A	All Project Costs:	AMOUNT:
	1.	Land Acquisition	
	2.	Construction Contract	
	3.	Fixed Equipment	
	4.	Movable Equipment	
	5.	Financing Costs	
	6.	Fair Market Value of assets acquired by lease, rent, donation, etc. (Space lease)	
	7.	Other: fair market value of acquired membership interest in Hawaii Endoscopy Centers, LLC	\$5,862,720.00
		TOTAL PROJECT COST:	\$5,862,720.00
В.	Source	TOTAL PROJECT COST:	<u>\$5,862,720.00</u>
В.	Source 1.		\$5,862,720.00 \$4,765,824.00
В.		ce of Funds	
В.	1.	ce of Funds Cash	
В.	1.	Ce of Funds  Cash  State Appropriations	
В.	<ol> <li>2.</li> <li>3.</li> </ol>	Ce of Funds  Cash  State Appropriations  Other Grants	

TOTAL SOURCE OF FUNDS: \$5,862,720.00

7. CHANGE OF SERVICE: If you are proposing a change in service, then please briefly list what services will be added/modified. Be sure to include the establishment of a new service or the addition of a new location of an existing service. Please reference the Certificate of Need Rules Section 11-186-5 for the categories of services. If you are unable to determine which category best describes your project, please consult with agency staff.

This application is for the acquisition of a membership interest in
Hawaii Endoscopy Centers, LLC, an ambulatory surgery center
specializing in endoscopy, by Covenant Surgical Partners, Inc. The
category is per HAR § 11-186-5(3)(C). No new locations or expansions
are proposed in this Application.
are proposed in this Application.

- 8. **IMPLEMENTATION SCHEDULE:** Please present a projected time schedule for the completion of this project from start to finish. Include all of the following items that are applicable to your project:
  - a) Date of site control for the proposed project: Upon closure of the purchase and sale transaction, which is expected to occur no later than November 15, 2013.
  - b) Dates by which other government approvals/permits will be applied for and received: Not applicable.
  - c) Dates by which financing is assured for the project: Not applicable. The acquisition will be paid for with cash and stock.
  - d) Date construction will commence: Not applicable.
  - e) Length of construction period: Not applicable.
  - f) Date of completion of the project: Upon closing of the purchase and sale transaction.
  - g) Date of commencement of operation: Upon closing of the purchase and sale transaction.

Please remember that the Agency does monitor the implementation of Certificates approved. Non-implementation of a project as described in your application may result in a fine and/or withdrawal of the certificate of need.

- 9. **EXECUTIVE SUMMARY:** Please present a brief summary of your project. In addition, provide a description of how your project meets each of the certificate of need criteria listed below. If a new location is proposed, please attach an easy to read map that shows your project site.
  - a) Relationship to the State of Hawai'i Health Services and Facilities Plan.
  - b) Need and Accessibility
  - c) Quality of Service/Care
  - d) Cost and Finances (include revenue/cost projections for the first and third year of operation)
  - e) Relationship to the existing health care system
  - f) Availability of Resources.

#### **EXECUTIVE SUMMARY**

Covenant Surgical Partners, Inc. ("Covenant"), a Delaware corporation, seeks to acquire the majority membership interest in Hawaii Endoscopy Centers, LLC ("Hawaii Endoscopy"), which operates an ambulatory surgical center ("ASC") specializing in endoscopic procedures. Covenant is a dynamic healthcare organization that was established to proactively provide superior customer focused healthcare to its patients. The current members of Hawaii Endoscopy have agreed to sell 61% of their membership interest in Hawaii Endoscopy to Covenant.

Covenant has entered into similar arrangements with other ambulatory surgical centers throughout the United States and, by application of its proven management system has improved their operating efficiency, reduced their expenses and increased their revenues.

The acquisition is not intended to change the scope of services now provided at the ASC. Hawaii Endoscopy intends to maintain the same services described in CON # 01-01A, which was approved on February 23, 2001 ("CON # 01-01A"). The acquisition is expected to result in lower annual operating costs because of the economies of scale that will be realized from the ASC's participation in the larger Covenant network of centers and implementation of its proven operating policies and management expertise.

a) Relationship to the State of Hawai'i Health Services and Facilities Plan.

The proposed acquisition will advance the Statewide Health Coordinating Council's ("SHCC") priorities of

- promoting and supporting the long-term viability of the health care delivery system by ensuring the ASC's financial viability and that it continues to provide the endoscopic procedures described in CON # 01-01A for the foreseeable future;
- maintaining overall access to quality health care at a reasonable cost because Covenant's participation in the business is expected improve the ASC's operational efficiency and reduce its operating expenses; and
- supporting preventive initiatives by providing endoscopy procedures that facilitate the early detection and treatment of stomach and colorectal cancers.

By facilitating early detection and treatment of gastroenterological diseases, the ASC will also advance the Honolulu SAC's goal of controlling the rising costs of senior

care. Colorectal cancer accounts for approximately 13 percent of all cancer incidence and 10 percent of all cancer mortality in Hawaii. Screening at recommended frequency improves the chance that colorectal cancers will be detected at an earlier stage when the cancer is more likely to be cured by surgery alone, the surgery needed is less extensive, and recovery from surgery is much faster. About 80 percent of Hawaii residents who develop colorectal cancer are age 55 or older. Nevertheless, only about half of Hawaii residents aged 50 or older have had a recent colorectal screening test, and only about 44 percent of the close to 3,900 cases of colon and rectum cancers diagnosed in Hawaii between 1995 and 2000 were diagnosed at an early stage. Hawaii Endoscopy will help control the costs of senior care by promoting early detection of cancer through the use screening procedures, thereby eliminating the need for more costly, and often less effective, treatment of late stage colon and rectal cancer.

### b) Need and Accessibility

The need for the ASC's services is evidenced and established in CON # 01-01A. Access to endoscopic procedures in the current service area will be maintained at current levels. The proposed acquisition will continue to serve all Hawaii residents including low income persons, racial and ethnic minorities, persons with disabilities and other underserved groups, and the elderly.

### c) Quality of Service/Care

Hawaii Endoscopy will continue to ensure the continuity and quality of care by observing the same protocols described in CON # 01-01A. The proposed acquisition is not intended to alter the scope of services provided at the ASC. The ASC will continue to be licensed by the Hawaii Department of Health and Medicare certified and to comply with all applicable federal and state regulations. It will continue to provide high quality endoscopic services by physicians who are licensed by the Hawaii Department of Health and board certified or board eligible in gastroenterology. The ASC will continue to maintain staff competencies through ongoing continuing education and to follow its existing written Quality Management and Improvement Plan.

d) Cost and Finances (include revenue/cost projections for the first and third year of operation)

Covenant will pay the members of Hawaii Endoscopy \$5,862,720 for 61% of their membership interest in the ASC. The purchase price will consist of cash and stock. The price is subject to adjustment based on Hawaii Endoscopy's financial performance prior to the closing date of the purchase transaction.

If the purchase price increases more than 15% of the currently anticipated price, Covenant will submit additional information to the agency describing the amount of increase in the purchase price.

Hawaii Endoscopy 's estimated revenue and operating costs for the first and third full years of operation following the acquisition are shown in the table below.

	Projected 1st Full Year Operations	Projected 3rd Full Year Operations
Total Operating Revenue	4,523,312	4,727,250
Operating Expenses		
Salaries, Wages, Benefits	1,617,677	1,716,193
Other Expenses	1,731,060	1,836,481
Depreciation	80,245	80,245
Total Expenses	3,428,982	3,632,920
Net Income (Loss) from Operations	1,094,330	1,094,330
Add Back: Depreciation	80,245	80,245
Excess (Deficit) Fund from Operations	1,174,575	1,174,575

### e) Relationship to the existing health care system

The proposed acquisition is not expected to have any negative effect on other providers or impair the public's access to services. The ASC intends to provide the same services that it does now after the acquisition. The same doctors are expected to continue practicing at the ASC. Accordingly, it will not have any significant impact on the existing health care system.

#### f) Availability of Resources.

There are minimal financial obstacles to the proposed acquisition. Covenant will pay the current members of Hawaii Endoscopy for the ownership interest purchased with a combination of cash and stock. The proposed acquisition is not intended to result in any change in the staff currently employed by the ASC. Accordingly, no additional employees will be necessary as a result of the proposed transaction.

10.	Eligibility to file for Administrative Review. This project is eligible to file for Administrative review because: (Check all applicable)			
	<del></del>	It involves bed changes, which will have a capital expense of \$1,000,000 or less, and which will have an increased annual operating expense of less than \$500,000.		
		It involves service changes which will have a capital expense of \$1,000,000 or less, and which will have an increased annual operating expense of less than \$500,000.		
		It is an acquisition of a health care facility or service, which will result in lower annual operating expenses for that facility, or service.		
		It is a change of ownership, where the change is from one entity to another substantially related entity.		
	*****	It is an additional location of an existing service or facility.		
	_ <u>X</u>	The applicant believes it will not have a significant impact on the health care system.		